INTERNATIONAL TRADE

Modes of entering into the international market.

*One of the most important strategic decisions in international business is the mode of entering the foreign market. Once company decides to go International, it must decide the best mode of entry into international market. The choice of the most suitable alternative depends on the relevant factors related to the company, the foreign markets and the government policies.

** The usual Strategies for entering into foreign markets are as follows:

-**Exporting**

-Licensing

-Franchising

-Strategic Alliance

-Joint ventures

-Management contracts

-Turnkey project

-**Direct investment**

****Exporting**: this is the most traditional way of doing business internationally. This method is very common, simple and widely used mode of entering foreign market. In exporting the production is carried out in home country and finished goods are shipped to the Overseas markets for sale.

-exporting is an appropriate strategy when one or more of the following conditions prevails:

1. The volume of production is not large enough to justify production in the foreign market.

2. Cost of production in the foreign market is high.

3 the foreign market is characterized by production bottlenecks life infrastructural problems.

***Exporting can be direct or indirect.**

****Indirect exporting**: when a firm does not have much exposure to foreign markets and has limited resources to invest in export development, indirect exporting is recommended strategy for entering international market. Indirect export can be defined as the process of selling products to an export intermediary in the the company's home country who would in turn sells the products in overseas market. Indirect export may occur by way of:

-selling to a foreign firm or buying agent in India.

-exporting through a Merchant intermediary i.e. an export house.

****Direct exporting:** direct exporting is far more complex than indirect exporting as a firm has to carry out its own market research, select, identify buyers, establish contact, documentation and transportation and also to decide what marketing mix is appropriate for different Overseas markets. Direct Export does not mean selling products to the end user. Direct exports are accomplished through foreign based independent market intermediary such as agent and distributors

2. **Licensing**: the term licence means to give permission. The licence is the document demonstrating that permission.

*Under Licensing a firm in one country (the licensor) permits of home in another country (the licensee) to use its (such as patents, trademark, Technology, copyright, marketing skills etc) inconsideration for royalty or fee.

-in many countries the fee for royalties are regulated by the government, it does not exceed 5% of the sales in many developing countries.

3. **Franchising**: it is a form of licensing in which a parent company (the franchiser) grants another company (the franchisee) the right to do business in the prescribed manner. This right may take the form of of selling the franchiser's product, uses brand name or production and Marketing System. The franchisee in turn pays royalty to the franchisor. For example, Coca-Cola supplies syrup to it's bottlers.

In other words franchising may be defined as a business arrangement which allows for the reputation, innovation, technical know-how & expertise of the innovator (franchisor) To be combined with the energy, industry and investment of another party (franchisee) to conduct the the business of of providing and selling of goods and services.

****Advantages of owning a franchise:**

-freedom of employment

-proven product or service outcomes

-Semi monopoly defined territory or geographical boundaries

-Proven brand, Trade mark, recognition.

-shared marketing, advertising, business launch campaign cost

-reduced risk of failure

-bulk buying advantages

-ongoing research and development

4. **Strategic Alliance**: it is a formal relationship formed between two or more parties to pursue a set of agreed goals or to meet a critical business need while remaining independent organisation.

-due to increase competitive pressure most firms prefer to focus on their competencies rather than spreading themselves. Partners may provide the strategic Alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise or intellectual property.

-The alliance is a corporation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than doors from individual efforts. The alliance often involves technology transfer, economic specialisation, shared expenses and shared risk.

-**for example,** Tata Motors has launched its range of Indica in the United Kingdom under the brand name City Rover using the marketing channels of MG Rover group. The company has also forged a strategic Alliance weather Honda Motors Co.Ltd. Accord model in India.

5. **Joint venture:** a joint venture (often abbreviated JV) is an entity formed between two or more parties to undertake economic activity together. The parties agree to create a new entity buy both contributing equity and they then share in the revenues, expenses and control of the Enterprise.

-The venture can be for one specific project only for a continuing business relationship such as the Sony Ericsson joint venture..

6. **Management contract**: under this system a company contracts with a firm or government in a foreign country to manage the entire project or undertaking for a specified period. Another word the management contract the supplier bring together a package of skills that will provide an integrated services to the client without incurring the risk benefits of ownership.

-**For example** Aditya Birla Group controls some companies abroad Crew management contract. Similarly, Tata Tea has contract to manage plantation in Sri Lanka.

7. **Turnkey project:** turnkey refers to something that is ready for immediate use, generally used in the sale or supply of goods or services. Is common in the construction industry.

-In turnkey project, the company contracts with the foreign firm to design and built an entire operation. It is a contract under which a firm agrees to fully design, construct and equip a manufacturing/business/service facility and turm the project over to the purchaser when it is ready for operation for a remuneration.

8. **Foreign direct investment:** FDI is investment made by a transnational corporation to increase its international business. When firm become multinational they undertake FDI.

-it generally involves the establishment of new production facilities in foreign countries to earn extra Returns.

-the foreign investment decision results from a complex interaction of factors that differ in in many ways from that governing the domestic investment decision.

-foreign investment is generally motivated by a complex set of strategic, behavioural and economic and financial consideration.

-the evolution process of foreign investment is generally longer, more costly, less accurate and involves more political and foreign exchange risk.